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The Bolivarians

The gunfire ended in less than a day, but the repercussions of the thwarted attempt to assassinate President Carlos Andrés Pérez and topple his democratically elected government may affect Venezuela for a long time to come. The questions that must be faced now are what happened and why, and what must be done to insure that no one ever tries again to install a dictatorial regime in the nation where Simón Bolívar was born.

President Pérez praised the boys who died defending his government as heroes who shall always be remembered by a grateful nation. But the sad and bitter truth is that none of these youths should have died. Two weeks before the tanks and paratroopers assaulted Miraflores and La Casona, an informant revealed to Carlos Julio Peñaño, a retired general who was Commander of the Army until June 1990, that a coup d'état would be launched in February.

This information was transmitted to Defense Ministry officials and two high-ranking AD leaders. Peñaño had been following the careers of these conspirators since 1984, and had repeatedly warned the Defense Ministry and other government authorities that these men were a danger to Venezuelan democracy. Several investigations were launched, but no proof of a conspiracy was uncovered.

The identities of the coup's ringleaders were also known to the military authorities, because in November 1989 Army intelligence had obtained a copy of a detailed plan to topple the government and murder Pérez and his minister of the Interior. Yet, nothing was done, and now many families are mourning their lost sons. If the plotters deserve lengthy prison sentences for their treason, the military officers, government officials and AD politicians who knew the coup was imminent also deserve to be judged and punished, for doing nothing to pre-empt it.

The coup was planned by a group of lieutenant colonels, majors and captains, all of them men in their thirties, all of them first-rate professional soldiers infected by a conviction that they were more perfect than anyone else in Venezuelan society, and that the nation's civilian rulers were stupid, corrupt and responsible for the crisis the country has been suffering for years. All of the plotters belonged to the Army. No Air Force, Navy or National Guard officers were involved. At least 12 battalions took part in the foiled coup, or 10% of the 120 battalions that make up the army. The principal ringleaders were Hugo Chávez Frías and Miguel Ortiz Contreras, both Lieutenant

Colonels, although a total of 133 officers and 956 enlisted men have been arrested thus far, and more may yet be detained.

Although no higher-ranking officers have been implicated, it would be naive to assume that some colonels and generals might not have joined the coup once the president had been assassinated and the opportunity arose to restore "order."

There was no single political philosophy within this group, which called itself the "Bolivarian Revolutionary Movement". Part of their thinking leaned to the left and part towards the right, but all of them shared the belief that their "Bolivarian duty" was to rid Venezuela of its corrupt political leadership and restore its tarnished national honor, and that this could only be accomplished through a bloody cleansing. Their first objective was to assassinate President Pérez and take power, but his death would have been just the beginning. Once in power, the putschists intended to execute all the politicians they could round up. No doubt the list of candidates for execution also would have included labor leaders, businessmen and others who belong to the nation's traditional elites. Venezuela's "honor" was to have been restored in a ritual bloodletting.

It's not clear why the Armed Forces and the government failed to react two weeks ago. Exaggerated confidence in the loyalty of the military and the stability of Venezuelan democracy may have been a factor. Venezuelans have been muttering about a coup for years as the means to clean up a political establishment riddled with corruption, but few actually believed that the tanks would roll into the presidential palace.

Another possible reason is that the two AD leaders who were told that a coup was imminent either didn't believe what they heard, or not to say anything in the hopes that Pérez would be pressured by events to "rectify" an economic program which AD has opposed consistently since early 1989.

A third possibility why nothing was done to pre-empt the coup relates to Peñaño's personal credibility, and to a lingering antipathy against the retired general for blowing the whistle on the Margold munitions scandal - an event which ultimately forced the resignation of the president's longtime personal security chief, Orlando García, and was responsible for the retirement of Defense Minister Hector Jurado Toro under a cloud. After all, Venezuela's military has long despised anyone who washes its dirty laundry in public.

Although Rafael Caldera used the occasion in Congress

Lot 942 D065
Box 5
PGOU - Coup Attempt
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to attack the economic program, the plotters weren't seeking to turn back the clock and "rectify" the government's policies. Their coup was an attack against the corruption and disorder which have come to characterize Venezuela's political system.

Can it happen again? Never, say President Pérez and his Defense Minister. But the truthful answer is yes: It could happen if the nation's political leaders don't change their conduct and push more aggressively to reform the economy and political system. This means that institutional reforms delayed deliberately by the political parties must be advanced quickly, that the political and electoral systems must be reformed swiftly as well, that the tradition of widespread corruption without sanctions must be terminated, and that the practice of making unfounded and false accusations for the purpose of undermining political opponents must cease. While oil made Venezuela rich, the Armed Forces could be bought off like other sectors through the State's economic generosity; but those days are long gone, and better ways of dealing with the needs of Venezuelan society must be developed.

Still, the damage caused by these floundering colonels may haunt Venezuela for many years. The one given in Venezuela's appeal to international investors was the stability of its 34-year-old democracy. Unfortunately, that stability can no longer be taken for granted.

ANTI-MONOPOLY LAW: Backer & McKenzie and VenEconomy will hold a seminar on the new "Law to Promote and Protect Free Competition" and its impact on corporations. The special guest speaker will be Guillermo Cabanellas, a professor at Illinois University and author of the book "Anti-Monopoly Law and Defense of Competition". Other speakers include Venezuelan lawyers and analysts. At the Tamanaco Hotel, Thursday Feb. 20. For further details, please call VenEconomy's Special Events Department.

"VENEZUELA: OPPORTUNITIES AND THREATS: A Binational Forum for Investors". A seminar organized jointly by La Nota Económica de Colombia and VenEconomy, in Bogotá, is intended as an exchange of expertise between Colombian and Venezuelan businessmen in search of new investment opportunities. Open to 30 presidents, vice-presidents, and CEO's of Venezuelan firms on a first-come, first-serve basis. For further information, please call VenEconomy's Special Events Department.

FINANCE

WORLD ECONOMIC FORUM: Pérez' speech in Davos, Switzerland reviewed the successes of Venezuela, in particular, and Latin America, in general, in opening up their economies and called on industrialized countries to respond appropriately, not with protectionism and unjustified restrictions that undermine the drive to develop free market economies.

TAX REFORM in Venezuela is running behind the rest of Latin America, affirms Vice-minister of Finance Carlos Stark upon returning from an ECLA seminar on tax issues in Chile. The regional tendency is towards indirect taxes because large informal economies make it difficult to collect direct taxes like income tax; 60% of tax structures are covered by the IVA.

FOREIGN DEBT: Venezuela received the third and final tranche of fresh money for \$298.8 million as laid out in the

foreign debt restructuring agreement signed in December 1990.

INFLATION: The Caracas Area Consumer Price Index rose only 1.3% in January, the lowest rate in three years and almost half the December rate. The largest increase was registered by miscellaneous expenses, which rose 3.4% due mostly to higher transport, medical and entertainment costs. The food sub-index was up only 0.5%, clothing 0.7% and housing 0.5%. Although an encouraging start for the year, January is normally a low-inflation month.

LIQUIDITY tightened in the week ending Jan. 17. Commercial bank deposits were down Bs.5,668 million (-0.59%) while loans and investments fell Bs.3,053 million (-0.43%).

(Millions of Bolivars)

	Jan. 17	Jan. 20	4 Weeks Ago	52 Weeks Ago
Money Supply (M2)	1,050,399	1,030,848	988,292	703,669
			(10,302)(1.01%)	54,556(5.34%)
Commercial Bank Deposits	951,846	907,574	940,398	628,727
			(-4,448)(-0.59%)	10,302(1.16%)
Loans/Investments	703,595	706,640	648,625	502,763
			(-3,654)(-0.51%)	34,905(5.21%)
Foreign Reserves	4,305	11,770	15,011	19,210
			(-3,654)(-24.21%)	-7,826(-51.07%)

Source: Central Bank
(*) VenEconomy Estimate

INTERNATIONAL RESERVES totalled \$12,053 million on Dec. 27, down \$95 million from the previous week. Net reserves were \$8,277 million, down \$97 million for the week.

	Dec. 27	Dec. 29	Nov. 91	Dec. 90
BCV Gross Reserves	12,053	12,148	12,242	11,758
			-95	295
Reserve Liabilities	3,776	3,774	3,415	4,346
			361	-570
BCV Net Reserves	8,277	8,374	8,827	7,411
			-453	866

Source: Central Bank Weekly Bulletin

THE DOLLAR: The bolivar closed on Feb. 3 at Bs.62.22-62.25, up Bs.0.10 from Jan. 29. Central Bank suspended exchange market activities on Feb. 5 to avoid dramatic fluctuations in response to the frustrated coup.

CARACAS STOCK EXCHANGE closed at 34,142.60 on Feb. 3, up 2.5% since Jan. 29. The Exchange closed on Feb. 4 due to the attempted coup and will probably not resume operation until next week. On the Merinvest Stock Index, financial stocks showed no change over the period while non-financial stocks were up 5.2%.

1992 BUDGET includes Bs.190,000 million for foreign debt repayment, of which Bs.30,000 million will come from the proceeds of the administration's privatization program.

1992 BUDGET CUTS are concentrated in four ministries. Together, the Finance and Interior Ministries will receive Bs.34,000 million less than originally planned.

PRIVATIZATION: The government expects to receive Bs.2,000 million this year from the sale of the Río Yacuy, Cumanacoa and Tacarigua sugar mills.

VENPRECAR, a Sidocar affiliate of the Silvensa Group, is offering 9,567,000 General Depositary Receipts (GDRs)

of seven common shares. One-third of the CDRs will be offered publicly in the Venezuelan capital market, one-third will be placed directly in the U.S., and one-third in a private placement in European markets. Bolsa Multinvest, which is leading the placement of the CDRs, says they guarantee a fixed dividend during the first three years of \$28,875,000.

CERAMICA CARABOBO was authorized to offer 8.5 million shares at Bs.100/sh. to raise capital from Bs.1,700 million to Bs.2,550 million.

ICAP has budgeted Bs.8,300 million to cover the loan demand of 90,000 farmers on more than 400,000 hectares nationwide during the 1992 winter and the 1991-92 north-winter seasons.

BUSINESS

MINIMUM WAGE will be set at Bs.8,000 per month for urban workers, the government announced, despite strong political pressures by the CTV and all parties (including AD) to raise the minimum wage to Bs.10,000 per month.

NEW "HYPERMARKETS" Dutch and Colombian corporations plan to introduce the "hypermarket," a marketing concept of minimal margins and wide product selection which is in vogue in Europe and faring well in Argentina, Mexico, and Colombia. These stores could challenge the Venezuelan supermarket chains, which are oriented around high margins.

SPAGHETTI, ANYONE? With a yearly per capita intake of 12.7 kilograms, Venezuela is the largest consumer of pasta in the Americas and the second, after Italy, in the world, according to the Venezuelan Pasta Manufacturers Association. Venezuelans gulp down 20.8 million kilos a month. With 70 pasta plants operating at 72% capacity, the nation produces 30 million kilos of pasta a month.

STILL NO CLASSES, BUT: A Bs.10.5 billion increase in the 1992 national budget, intended to cover a 20% plus salary hike for public school teachers, failed to end the CTV-backed teachers' strike that has deprived 3.5 million children of classes for two and a half weeks. The teachers, however, will have to suspend their strike for now to comply with a Presidential decree suspending constitutional guarantees in the wake of the failed coup attempt Tuesday.

CONFLICT BREWING OVER SIDOR: Talks between Sidor and the Venezuelan Investment Fund over how the State steelmaker should be restructured are breaking down over irreconcilable differences. Reportedly, VIP and Corplan support a study by UEC, a U.S. engineering and consulting firm affiliated to U.S. Steel, that recommends a two-stage restructuring program that would invest \$370 million in modernizing Sidor's flat products plant and its control processes. UEC also recommends reducing the company's work force by over 3,000 by cutting back management levels from nine to five in three years and that Sidor's seamless pipe plant and bar/wire rod facility be privatized. Sidor argues that it must invest over \$1 billion in the next six years to modernize its facilities and wants to fire another 3,000 plant workers, but leave its management organization intact. UEC's conclusion is that Sidor's biggest problem is an inefficient management structure, echoing a longtime complaint by Sutisa, the company union controlled by Causa R. Unfortunately, CVC chief Leopoldo Sucru Figarella has dismissed UEC's study as

an effort by an international competitor to cripple the Venezuelan steelmaker's competitiveness. Sucru's insistence on blaming "multinationals" for every criticism or problem suffered by a CVC company is turning him into a political liability to the industries he defends.

SIVENSA GROUP reported consolidated income of Bs.30,905 million for 1991, and inflation-adjusted net profits of Bs.1,525 million. The group's income rose 24% last year in real terms (61% in nominal terms), while profits increased 16% from 1990. Exports totaled \$187 million.

BAUXIVEN produced 2 million mt of bauxite last year, selling 1.46 million mt to Interalumina. Sales in 1992 are projected at 3.5 million mt, rising to 6 million mt in 1994. Bauxiven's open-sky mine project finally will be completed this year, more than a decade after it was first proposed. The total cost is estimated at Bs.17,000 million.

EC PROTESTS: The EC indicated it will not accept the secondary U.S. embargo on tuna caught by Venezuelan, Mexican, and Vanuatuan ships and purchased by three EC members, describing the embargo as a unilateral protectionist measure. The EC has filed an appeal to GATT, which is pending.

U.S. PROTECTIONISM: ICE president Miguel Rodríguez Mendoza said that Venezuelan firms could be forced out of U.S. markets by excessive trade regulation, as they would be unable to cover the legal costs of proving compliance with anti-dumping and other rules.

MASERATI plans to open a sales office in Venezuela by mid-March 1992. The Italian auto maker hopes to sell only 12 units of its luxurious 228 and 430 models here. Sicker prices Bs.4.5 million.

TELCEL CELULAR was granted a credit line of \$20 million by Andean Development Corp. (CAF), in order to complete capital purchases it needs to supplement its A Band operations.

ELECTRICITY WILL COST MORE: The World Bank has recommended hefty increases in electricity rates ranging from as low as 76-95% for Edelca, to as high as 300% for Cadase.

MAJOR INVESTMENTS committed to Venezuela by foreign investors to date total over \$24 billion, according to VIFund president Torres, who added that \$2.3 billion have entered the Treasury thus far as a result of privatizations, and another \$1.1 billion will be obtained this year. Those figures are more than twice the \$10 billion in private investment which President Pérez cited last week at the World Economic Forum in Davos, Switzerland and should be viewed with caution. More than half relates to projects that have not yet begun and are not likely to start until (a) world conditions improve (e.g. aluminum), or (b) the government finishes creating an environment attractive to foreign investors.

PETROLEUM

OPEC There is "a growing inclination among OPEC producers" to agree at the Feb. 12 meeting to reduce output in order to raise prices, says Energy Minister Celestino Armas. The voluntary production cuts made by Venezuela and other OPEC producers have already taken 415,000 b/d out of the market, and world prices are recovering on a modest but sustained basis. OPEC's basket price has climbed above \$17/bbl and Venezuela's average export price has topped \$14.30/bbl after reaching a low of

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\$13/bbl. Armas based his optimism on the fact that OPEC and non-OPEC producers "have learned the lesson of what it means to have a market characterized by uncertainty, deterioration and violent price fluctuations." Each dollar of decline in the price of oil, he added, means not only a loss of \$620 million annually for Venezuela, but also a much greater combined loss of \$8.7 billion for OPEC as a whole. "These numbers speak for themselves and without any doubt will be an important factor in the search for a formula to re-establish the market's balance," he said.

PDVSA'S TAX LOAD will not be reduced this year, but the government is negotiating a formula with the company to progressively eliminate the export reference value (ERV) over three or four years starting in 1993. Armas said the ERV cannot be eliminated until an effective alternative source of fiscal revenue is created and put into effect.

MARGINAL FIELDS INITIATIVE: Local and foreign companies participating in the bidding to reactivate 35 marginal oil fields have asked the Energy Ministry for a 30-60 day postponement of the Feb. 28 deadline for unsealing bids and announcing the winners. The postponement is intended to give the bidders more time to obtain additional information on the oil fields from PDVSA, and to prepare their final bids.

SPANISH CREDIT FOR TANKERS: A \$3 billion, five-year credit facility negotiated in 1990 by the governments of Spain and Venezuela earmarks \$100 million to finance the renewal and expansion of PDVSA's tanker fleet. The first tranche of the credit, totaling \$1.2 billion, will be disbursed to Venezuela this year. Reportedly, no strings have been attached to the loan, and PDVSA is free to negotiate its tanker acquisitions with Spanish shipyards or whichever country submits the most competitive bids in terms of price, delivery and quality.

INVESTMENT PLAN UPDATE: Despite weaker oil prices and uncertainties about the depth of political support for the industry's planned expansion, the most recent update of PDVSA's medium-term investment plan foresees outlays of \$51 billion between 1992 and 1997. Of this total, \$18 billion is earmarked for investments in petrochemicals, natural gas, coal and Orimulsion. The remaining \$33 billion will be invested directly in oil operations, but only \$3.3 billion are geared toward expanding output capacity. Another \$3.3 billion will be spent on exploration for light gravity crudes, and the rest will be invested in reversing the natural decline of the country's active oil fields and maintaining existing output capacity. The study also predicts stable prices within a band of \$13-20/bbl through the year 2000, annual growth in world demand of 2% for the same period, and a rise in consumption to 70-73 million b/d in 10 years. In developing its investment plan for the 1992-97 period, PDVSA worked with what it calls the Slow Transition scenario, which projects a 2% annual rise in world energy demand from the equivalent of 163.6 million b/d this year to 203 million b/d in 2000. U.S. energy demand will grow 1.6% annually, Japan 1.4% and Europe 2.5% (including Eastern Europe). As a block, energy demand in developing countries is projected to increase by 3.5% a year.

POLITICS

CONSTITUTIONAL GUARANTEES were suspended by the government, automatically putting an end to the

three-week-old teachers strike, eliminating the autonomy of the universities and prohibiting the street protests which had been proliferating in recent weeks. The suspension may also help the police authorities in fighting crime. Formal support for tougher law enforcement measures will last only as long as the authorities avoid human rights abuses and unjustified repression. Although freedom of expression has also been suspended, the government isn't likely to enforce it as long as no one attacks democracy or tries to promote violence. The suspension of guarantees was approved by all parties except Causa R and Rafael Caldera. No curfew was declared.

SOME COINCIDENCES between the coup's leaders and recent public opinion polls include the rejection of corruption, antipathy towards the political parties, and a perception that the government is weak in dealing with street protests and strikes, and that the current democratic system is unable to provide a better quality of life.

ULTIMATUM FOR FUENMAYOR: The Interior Ministry ordered Central University rector Luis Fuenmayor to control the hooded protesters ("encapuchados") who circulate freely throughout the university's grounds. The attorney general added that the police can legally enter these grounds to repress criminal activity without violating the university's autonomy.

MERCANALISIS POLL reports that 35% of the population surveyed nationally thinks a military coup is a viable solution for the nation's problems, up 5% from nine months ago.

TABLANTE THE INFORMANT? Porfirio Valera, who was implicated in a number of questionable acts while he was running the Disip police during the Lusinchi administration, told a Congressional committee that Aragua Governor Carlos Tablante (MAS) was a paid informant for that police organization. Valera, whose credibility is questionable given his spotty past, said that Tablante received \$5,000 per month for his efforts, but Tablante's former Disip bodyguards said that money was paid to them to supplement the salaries they received as bodyguards. It's surprising that Tablante is being investigated, while no effort has been made to investigate Vladimir Gessen, now Venezuela's Ambassador to Canada, who also carried out certain para-police activities for which he reportedly was paid by a government security agency.

CLAUDIO FERMIN has been asked by President Pérez and Luis Alfaro Ucero to run again as mayor of Caracas, which means he would have to put off his presidential ambitions, but would also assure an AD mayor for Caracas.

Robert Bottoms, Rita Padilla, and Patricia Gil Yanes
and John Swenson
Editorial Coordinator
Steve Andrews
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Apartado Postal 1400, El Morro, Caracas 1070-A
Avda. Abraham Lincoln 174, Barrio de San Juan Grande
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Teléfono: 72.61.61 - 72.61.62 - 72.63.65 - 72.61.26 - 72.30.47
71.81.21 al 26 Telex: 28067 SCBVC Fax 72.81.60
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